

INVESTMENT OPPORTUNITIES IN COSTA RICA

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Overview

1. Background Information
2. Tax / Free Trade Zone Issues
3. Markets Liberalized under CAFTA
4. Infrastructure and Energy Opportunities
5. Tourism / Real Estate
6. Manufacturing / Outsourcing



1. Background Information

Attractive Environment

- **4th place** in Latin America: Quality of Life (Economist Intelligence Unit, 2009)
- **1st place** in Latin America: Political Stability (World Bank Survey for Global Governance, 2008)
- **1st place:** Latin Security Index (Latin Business Chronicle, 2009)
- **1st place** in Latin America: Educational System (World Economic Forum's Global Competitiveness Report 2008-2009)

Trade Agreements



Trade Agreement	Parties	Date
CAFTA	Central America and Dominican Republic with United States of America	December 21th of 2007.
PANAMÁ	Central America with Panamá	August 7 th of 2007.
CARICOM	Republic of Costa Rica with the Caribbean States community	November 15 th of 2005.
DOMINICAN REPUBLIC	Central America with the Dominican Republic	March 7 th of 2002.
CHILE	Central America with Chile	February 15 th of 2002.
CANADA	Republic of Costa Rica with Canada	November 1 st of 2002.
MEXICO	Republic of Costa Rica with the United Mexican States	January 1 st of 1995

Air Service

City	Flights Frequency
Atlanta, GA	Daily
Charlotte, NC	Daily
Chicago, IL	Once a week
Dallas, TX	Daily
Denver, CO	Daily
Fort Lauderdale, FL	Daily
Houston, TX	Daily
Los Angeles, CA	Daily
Miami, FL	Daily
New York, NY	Daily
Newark, NJ	Daily
Orlando, FL	Daily
Philadelphia, PA	Once a week
Phoenix, AZ	Daily
Toronto, Canada	Daily

2. Tax / Free Trade Zone Issues

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Residents and corporations are taxed only on income earned in Costa Rica

Tax or Mandatory Contribution	Tax Rate	Tax Base
General Sales Tax	13%	Value of Goods and some services
Income Tax	30%	Net Income
Tax on Dividends	15%	Withholding Tax on paid dividend
Property Tax (Land & Infrastructure)	0.25%	Value registered at Municipal level
Property Transfer Tax	1.5%	Price or Registered Value
Commercial License (Municipal)	0.1%-0.3%	Gross revenue
Remittances Abroad	5.5% to 30.0%	Gross Remittance
Import Duties	Varies	Import value
Vehicle tax	Varies	Vehicle value

Free Trade Zone

- More than 259 companies, mostly local subsidiaries of major US and European corporations, operate in Costa Rica manufacturing wide array of products, developing technology and offering diverse services (including call center operation)
- **Inside Extended Metropolitan Area:** 100% exemption on income tax during first 8 years of operation, and 50% exemption during next 4 years
- **Outside Extended Metropolitan Area:** exemption of 100% on income tax during first 12 years of operations, and 50% during next 6 years.

Trade Incentives Under FTZ

Reforms to FTZ Regime (December 17th of 2009)

- Compliance with new regulations of WTO
- Promotion of new investments
- Stimulus for development of larger production chains that will benefit companies not currently operating under the Free Trade Zone regime, which provide goods and services to companies in FTZ
- Establishment of free trade zones in rural areas

3. Markets Liberalized under CAFTA

Telecommunications Law

Main Objectives under Telecommunications Law (2009):

- Regulate operation of network and provision of telecommunications services
- Promote competition in telecommunications market as mechanism to increase availability of services
- Promote transparent investment without discrimination
- Creation of regulatory agency SUTEL
- Permit process / auctions pending
- National carrier ICE

Insurance Market

- Insurance market in Costa Rica was also opened with implementation of CAFTA
- Non-discriminatory basis and free competition between private and public companies
- Previously was closed market served by National Insurance Institute (INS)
 - Property and Casualty
 - Worker compensation
 - Auto
- Undeveloped insurance market

Insurance Law

Main Objectives:

- Regulate operation of insurance market and insurance mediation
 - Public offering of insurance
- Promote free and regulated competition among national and foreign insurance companies
- Creation of regulatory agency SUGESE
- Agent and broker models
- Registration of insurance products

4. Infrastructure and Energy Opportunities

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Loan by IDB for \$850 MM

- In late 2009, IDB announced granting of \$850 MM loan to Costa Rica to be used for development of road infrastructure and public transport
- IDB Loan represents largest loan ever granted to single country in Latin America and represents close to half of Costa Rica's current foreign debt

Main Goals of IDB Loan

- Transportation Infrastructure
- Finance investments in sectors supervised by Costa Rica's Ministry of Public Works and Transportation (MOPT) including co-investments with municipal governments
- Improvement of highway network, which is run by National Highway Council (CONAVI) including paved roads, un-paved roads, rural roads, and repair of approximately 500 kilometers of highways and bridges

“Considered in proportion to Costa Rica’s population, this credit line is the IDB’s largest investment in the transportation sector. It will enable Costa Rica to modernize its transportation infrastructure, including roads, ports, railroads and air transportation, with an emphasis on economic and social integration...” www.iadb.org

Electricity Sector

- **1st in Latin America:** Quality of Electricity Supply (Global Competitiveness Report 2008-2009 published by the World Economic Forum)



Market Liberalization under CAFTA – Power Sector

- Pre-CAFTA private sector role in generation was limited to PPAs to ICE
- CAFTA contemplate
 - Free and regulated access to electric power market
 - May grant concessions for generation, transmission, distribution, and trade of electric power based on demand for service

Pending Bill on Power Reform

- Congress is currently considering allowing private parties to generate electricity which will be distributed by energy providers (as opposed to more restrictive existing model of sale to national power company)
- Law, if adopted, would promote development of renewable energy-based electricity, competitive prices, and good quality of service
- Also promote fair and regulated competition in electricity market based on non-discriminatory basis that will allow entry/participation of various power sector competitors

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Anticipated Levels of Investment in Power Sector Through 2021

- At an average growth rate of 5.4% per year, Costa Rica must double its installed capacity by 2021
- If this rate of growth continues, Costa Rica will require adding to system approximately 2,400 MW by 2021

Anticipated Levels of Investment in Power Sector Through 2021 (cont'd)

Generation	\$ 583 million
Transmission	\$ 134 million
Distribution	\$ 51 million
Public Lighting	\$ 1 million
Total	\$ 769 million

For period 2009 – 2021, Costa Rica will require \$9.227 billion investment in electricity sector

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Electricity Law Bill

Main Objectives:

- Free and regulated competition
- Transparent investment
- Reasonable and competitive prices
- High quality, reliable and sustainable power
- Creation of SUEN: government authority responsible for regulation, authorizations, and fees

Development of Electricity Sector

Declaration of Public Interest:

- Generation, transmission, and distribution of electricity
- Research, exploration, and exploitation of energy sources for electricity production

Tax exemptions on equipment, machinery or electrical components of:

- Generation, transmission, and distribution of electricity
- Technology systems for waste use
- Fuel
- Hydrogen generation systems based on primary energy and water

Hydrocarbons Law

- Regulates exploration and exploitation of hydrocarbons
- Environmental protection
- Creation of Department of Hydrocarbons in MINAE

PORTS

- Limon has highest volume of activity in Central America and Caribbean
- Settlement plan and concession of new port
- Expected that concessionaire will need to make \$800MM in capital expenditures



COSTA RICA



Public Transport

- Concession for 35 years of electric train service that will connect provinces of Alajuela, Heredia, Cartago and San José (Price tag of \$345 MM)
- Currently bidding - Alston, CAF, Inekon Group Corporation, Siemens, Bombardier and Golden Source International Economic

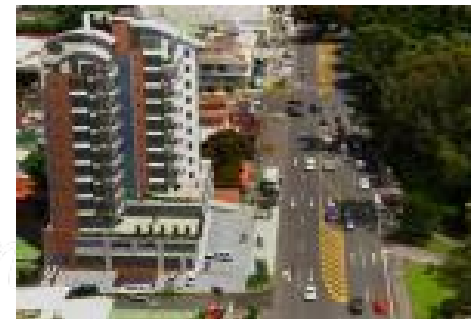


5. Tourism / Real Estate

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Real Estate Market

- National Public Registry managed by Ministry of Justice of Executive branch: well-developed mechanism for title registration and transfer of properties



Tourism

- Although country is small and covers only 0.03% of the surface of globe, it has 6% of existing biodiversity in world
- 25.58% of country is composed of conservation and natural protected territory



6. Manufacturing / Outsourcing

Manufacturing Opportunities

Costa Rica's success in attracting foreign direct investments in advanced manufacturing sector relies on combination of factors:

- productive workforce
- favorable cost/benefit analysis
- reliable infrastructure
- business friendly environment

Most modern manufacturing companies are located in FTZ

Government Contracting

Main purchases by Costa Rican government

- hydrocarbons
- construction materials and services
- telecommunication equipment
- electric power generation equipment
- medical equipment
- medicines and chemicals
- consultancy services
- public infrastructure construction and maintenance
(including buildings, roads, ports, bridges and airports)



Procurement Law

Main principles

- Open bidding
- Equal treatment for bidders
- Access
- Legal and transparent proceedings
- Compliance with formal bid procedures
- Balancing of interests
- Good faith
- Economic balance, and
- Control and oversight

Other Investment Sectors

- Services Sector: 95 companies and 28,416 employees in 2009
- Medical Devices Sector: 9,376 employees (Hospira, Boston Scientific, St. Jude Medical, Hologic, Arthrocare, Allergan, and Amoena)
- Medical Devices Sector: 4th biggest exporter in country (US\$960 million and attracted US\$166.2 million in Foreign Direct Investment in 2008)

Considerations for Plant Opening in Costa Rica

- Siting
- Zoning
- Permits
- Labor
- Tax incentives
- Tax structuring considerations

Question and Answer

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THANK YOU

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